March 1991 Monthly Survey April 5, 1991

Surveys of Consumers

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END OF WAR PROMPTS SUBSTANTIAL IMPROVEMENT IN OUTLOOK FOR ECONOMY

Record Increase in Consumer Sentiment

The Index of Consumer Sentiment rose to 87.7 in the March 1991 survey, regaining nearly all of the loss recorded since the Middle East crisis began. The substantial gain was based on the expectation that the overall economy would improve during the year ahead. At present, however, most consumers continued to view the economy in recession, and have reported little improvement in their own financial situation.

The March improvement of 17.3 Index-points was the largest one month gain in the history of the surveys. In the early phase of past recoveries, consumer sentiment has repeated recorded sharp increases, but never as rapidly--the Index recorded a three-month improvement of 18.7 Index-points at the start of 1983, and a three-month improvement of 15.7 Index-points in early 1975.

The crucial common element of the past recoveries was that the initial gains in sentiment were sustained over time, with expected improvements in the general economy quickly translated into expected improvements in personal finances. While the record setting rebound in confidence represents the best first step toward recovery ever recorded, whether these initial gains will be sustained in the coming months will be the decisive factor in ending the current recession.

Since the improvement consumers expect is thus far limited to the general economy, rather than in their own personal financial situation, it is likely to foster a "wait and see" attitude toward spending. Until consumers can be more confident of improvements in their incomes and job prospects, they are likely to remain cautious spenders.

Improvement Widespread Among Population Subgroups

The large gain in confidence was widespread across all regions, as well as age and income subgroups.

Among residents of the Southern region, the Index rose to 91.4 in March, a gain of 20.6 Index-points from February. Consumer sentiment among residents of the Northeast rose to 83.0 in March, up 18.8 Index-points from February. Sentiment among Western residents rose to 88.2, up 17.3 Index-points from February. The smallest improvement was recorded among residents of the Midwest, rising to 85.9 in February, up 10.2 Index-points.

Among families with incomes of $30,000 or more, the Index of Consumer Sentiment rose to 94.5 in March from 73.9 in February--a gain of 20.6 Index-points. For respondents under 35 years of age, the February improvement totaled 21.1 Index-points; among those age 35 or older the gain was 15.0 Index-points.

Leading Indicator
Posts Substantial Gain

The Index of Consumer Expectations rose to 84.5 in the March 1991 survey, from 62.0 in February and the recent low of 50.9 in October 1990. The March 1991 reading was the highest level recorded since the December 1989 survey. The Index of Consumer Expectations has improved in each of the past five months, with two-thirds of the entire improvement since the October 1990 low coming in the March survey alone. Indeed, the March gain of 22.5 Index-points was the largest one month increase ever recorded.

Greatly Improved
Outlook For Economy

Consumers' assessments of the general economy have followed a rather typical cyclical pattern during the past six months, with changes in expectations preceding changes in assessments of current conditions. The distinctive aspect was the very rapid acceleration of the underlying pattern at the conclusion of the war.

Consumers' expectations of future change declined sharply in the third quarter of 1990, reaching a low in the October 1990 survey. From October through February they gradually improved, with the proportion of families that expected an improving economy rising each month, from a low of 11 percent in September to 27 percent in February. This 16 percentage-point improvement was then doubled in the March 1991 survey, when the proportion of families that expected an improving economy rose to 44 percent.

Reflecting the expected improving trend in the economy, 48 percent of all families in the March 1991 survey thought that this would mean the reestablishment of good times financially in the economy as a whole during the year ahead, more than twice the 20 percent recorded in February. The expected improvement also extended over the longer term, as 38 percent of all families expected good times in the economy during the next five years in the March 1991 survey, up from 26 percent in February.

The marked improvement in the future outlook for the economy, however, did not change the very unfavorable views of its current state. Consumers' assessments of current conditions in the economy continued to decline through the end of the year, reaching a low in the January 1991 survey, when 81 percent thought the economy was in recession. By the March 1991 survey, 75 percent of all families still thought that the economy was in recession, an insignificant improvement.

Unemployment

Although further increases during the next twelve months in the national unemployment rate were much less frequently expected in the March 1991 survey (36 percent, down from 56 percent in February), few expected the unemployment rate to actually decline (17 percent in March, up from 12 percent in February). Instead, the shift in opinions recorded in the March 1991 survey was toward the expectation that the national unemployment rate would remain largely unchanged at its present level in the year ahead (46 percent in March, up from 31 percent in February).

Inflation Expectations
Continue to Improve

Consumers expected the inflation rate to average 4.5% during the year ahead in the March 1991 survey, down from 4.8% in February and the recent high of 6.1% recorded in October of 1990. The March 1991 survey marked the fifth consecutive month that the expected inflation rate declined.

Improved Prospects For Economy
Dims Interest Rate Outlook

Following repeated improvements in interest rate expectations during the past few months, the March 1991 survey recorded the first reversal since September 1990. Apparently, along the expectations of an improving economy, fewer

consumers expected further declines in interest rates.

Among all families in the March 1991 survey, 35 percent expected declines in interest rates, down from the 43 percent recorded in February. The reversal, however, has been very small compared with the extent of the recent change. At present, as many families expect declines as well as increases during the year ahead (35 percent), where as in September of 1990 increases were expected more than four times as frequently as declines (63 versus 14 percent).

Personal Finances Post Smallest Improvements

Compared to the substantial improvement recorded in expectations for the general economy, consumers' views of their own personal financial situation posted only marginal gains. Among all families, 35 percent reported that the financial situation had improved during the past year, barely above the average of 33 percent recorded during the prior five months. Increases in incomes were reported by 26 percent of all households in the March 1991 survey, only slightly above the 25 percent recorded in February and the recent low of 24 percent in October 1990.

For the year ahead, 36 percent of all families expected their financial situation to improve, up from 32 percent one month earlier and 26 percent three months earlier. Overall, half of all families expected their incomes to just keep pace with rising prices, leaving the net financial situation unchanged during the year ahead.

Home Buying Attitudes Continue to Improve

Favorable attitudes toward buying conditions for homes were held by 73 percent of all families in the March 1991 survey, up from 61 percent in February and the recent low of 50 percent in October 1990. Unlike attitudes toward buying conditions for vehicles and large household durables, which have only shown signs of improvement in the March survey, home buying attitudes posted significant improvement by the start of 1991.

The improvement in home buying attitudes continues to be paced by lower mortgage interest rates. Reports of the availability of lower mortgage interest rates increased sharply from the October 1990 to January 1991 survey (from 11 to 31 percent), and then rose further in the March 1991 survey (to 43 percent).

In addition to lower mortgage rates, more families favorably referred to the current level of home prices in the March 1991 survey than any other time in the history of these surveys. Among all families in the March 1991 survey, 49 percent mentioned low or reduced home prices, above the prior peak of 42 percent recorded in January 1991.

Vehicles Buyers: Looking For Discounts

Favorable attitudes toward buying conditions for vehicles were held by 66 percent of all households in the March 1991 survey, up from 54 percent one month earlier and 47 percent three months earlier.

More families mentioned in the March 1991 survey that they based their favorable vehicle buying attitudes on the availability of price discounts. Overall, 48 percent of all families thought that the availability of price discounts during the upcoming year would promote favorable buying conditions. At 48 percent, the March figure tied the all-time record high that was recorded from January to March of 1990.

References to lower interest rates on vehicle loans did increase, but still remained at a relatively low level. Among all families, 16 percent mentioned the lower interest rates on vehicle loans, up from 10 percent one month earlier and 8 percent three months earlier.

Household Durables:
First Signs of Improvement

Favorable attitudes toward buying conditions for furniture, appliances, home electronics and other large household durables were held by 63 percent of all families in the March 1991 survey, up from 54 percent one month ago and 55 percent three months ago. Overall, the March survey marked the first monthly improvement since the start of the Middle East crisis.

References to price discounts for household durables rose to 36 percent in the March 1991 survey, from 33 percent one month earlier and the low of 26 percent in October.

An important element of the recent improvement was a decline in the economic uncertainty caused by the war. The proportion of families that referred to bad and uncertain economic conditions as a reason for their unfavorable buying attitudes fell to 18 percent in March from 28 percent in February.

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The March 1991 survey included 504 completed interviews conducted between February 28th and March 27, 1991.